Parity Funding

Introduction

The South Carolina higher education community has been dealing with the parity issue since the early 1990s. Currently, the Commission staff with the assistance of the Funding Advisory Committee has developed a proposal to address this issue over a period of years. The time-frame will be dependent on increases in funding levels and enrollment patterns among institutions. Provided below is a comprehensive description of the different issues and considerations relating to parity funding, followed by a description of the proposal. This information will be discussed in detail at the Finance and Facilities Committee meeting and will be reviewed at the full Commission meeting.

Background

As important background information, there are three interrelated issues directly involved in the current consideration of the parity funding issue. Each primary issue is discussed separately below.

Parity

The "Parity Funding" issue developed over the past decade and a half due to the following series of events:

- During the late 1980's, as a result of an economic slowdown, increases in state appropriations became severely limited.
- The Commission instituted a "Hold Harmless" policy, whereby institutions with increasing enrollment would forego increases in funding so that institutions with level or declining enrollment would not face a reduction in funding.
- In the early to mid 1990's, as modest funding increases began to occur, the Commission began to address the resulting funding level variances. However, prior to achieving parity in levels of funding, Performance Funding was enacted by the General Assembly. As a component of Performance Funding, appropriations levels were frozen at the 1996 levels, with increases in funding being designated for allocation based on performance.
- In FY 1999-2000, a one-time allocation of $10 million was made in an effort to address the funding level inequities. This allocation was inadequate to address the existing disparities.
- The current status of allocations made through Performance Funding includes the vestiges of the funding inequities resulting from the hold harmless policy. The levels of funding range from a low of 27 % to a high of 60 % based on 2004-05 appropriations compared to compare to estimated need.

Mission Resource Requirement (MRR)

Concurrent with the above events, another related series of events occurred in relation to the Commission's calculation for estimating need

- Prior to 1996, the Commission used a model referred to as "the formula"
- With the institution of Performance Funding, a new model, the MRR, was developed, which replaced the formula as a model for estimating the fiscal needs of higher education institutions.

- Largely due to frustrations associated with funding levels, as a means of determining the validity of the new model, an external consultant was hired (MGT of America) to evaluate the model.
- MGT concluded its work and made a series of recommendations for modifications to the MRR in June 2000.
- All of the recommendations were adopted by the Commission, with one exception. The recommendation to adjust the student/faculty ratios used in the model so that the undergraduate ratios would be the same for all sectors was never adopted.
- The effect of this recommendation was to increase the value of the MRR for three sectors, with no impact on the Technical College sector. The issue was only partially implemented and then later suspended for further study prior to full implementation.

Tuition Increases

Finally, a third significant component of this issue has evolved over recent years relating to tuition. Simply put, with the budget reductions of recent years, in order to maintain the current level of quality and variety of programs, institutions have been forced to significantly increase tuition levels. In its simplest form, the MRR is calculated as the estimated total education and general operating costs of an institution, reduced by the student's share, resulting in the portion to be funded by the state. The foundational premise included in both the formula and the MRR was that in-state, undergraduate students should bear approximately 20% of the costs (15% for two year institutions), and the state should bear the remaining 80%. The basis for the differential between four-year and two-year institutions is the statutory mandate for accessible institutions and low fees within the Technical College sector. Per statute, out-of-state students are to bear the full cost of their education. With the recent significant increases in tuition, it has become increasingly clear that there has been a shift in the relationship between student and state support with respect to relative share of the cost. Based on analysis of current financial information, the relationship between student and state shares approximates a 50/50 split at the four-year institutions and a 40/60 split at the two-year institutions.

Discussion:

During the fall of 2002, the Committee on Finance & Facilities agreed that the parity funding issue should be addressed, but not until an increase in state appropriations is realized. At that time, the Committee charged the Commission staff, along with the Funding Advisory Committee (FAC) with developing a plan for addressing parity funding when an increase in state appropriations occurs.

The staff and the FAC have met numerous times to discuss the issue and work toward a possible solution. Discussions have included the existence of a parity problem, the definition of parity, a reasonable time-frame to resolve the issue, and allocation of funds among affected institutions.

Also under discussion has been the likelihood of receiving increases in higher education funding. While the fiscal projections do not show indications of significant increases in funding, the current scenario is the most optimistic in recent years. There is the realization that a plan should be in place in the event that funds do materialize through the budgetary process. Another aspect relating to available funds is how aggressively higher education should attempt to address resolution of this issue; realizing that the more aggressive the approach, the greater the shift of new funds to lower funded institutions (and correspondingly away from higher funded institutions). As a means of considering this component, the recently enacted Fiscal Discipline Plan of 2004, (Act 256) was considered. This Act provides that general fund appropriations may not exceed the previous year's appropriations by more than 3% until FY 2009 or such time as the state's existing deficit has been eliminated, and the statutory reserve funds have been fully funded. Because these two stipulations have not yet been realized, the application of this growth limitation to higher education could result in a growth limitation of approximately $18 million (current appropriations of $598 million times 3%). Note that Act 256 does not limit growth by governmental segment and the application here considers just higher education.

Recommendation:

The staff recommends, with the concurrence of the Funding Advisory Committee, the following changes to the MRR and the Allocation Methodology for FY 2005-2006:

1) The MGT recommendation for modification of the student/faculty ratios so that all sectors shall use the same ratios for undergraduate students be fully phased in immediately.
2) The percentages used in the Revenue Step of the MRR are modified to a 50% deduction for in-state undergraduate students at the four-year institutions and 40% for in-state undergraduate students at the two-year institutions. The remaining percentages and treatment of student share would remain the same for all other groups of students. (Note: Minor work remains to resolve this specific issue as it relates to MUSC. The Funding Advisory Committee agreed that CHE staff and MUSC personnel resolve these specifics.)
3) The first $18 million of increases in appropriations to higher education institutions for operating funds will be allocated in a manner to aggressively address the current disparity in funding levels. Specifically, funds will be allocated on a disproportionate basis, so that all institutions will be moved toward to percentage funding level of the next highest percentage above the highest funded institution, with those institutions currently receiving the lowest levels of funding receiving a disproportionately larger share than those institutions funded at higher levels (refer to attached spreadsheet for specific calculation example). All funds above $18 million will be allocated using the same methodology. However, the targeted level of funding to be achieved will be changed to 90% rather than the next highest percentage above the highest funded institution.
4) In order for any institution to participate in this parity allocation methodology, the institution must obtain a score of at least "Achieves" in the Commission's Performance Funding system of evaluation.